THE INTER-AMERICAN COFFEE AGREEMENT

BY

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THESIS

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I HEREBY RECOMMEND THAT THE THESIS PREPARED UNDER MY

SUPERVISION BY JOHN MERLIN HUNTER

ENTITLED THE INTER-AMERICAN COFFEE AGREEMENT

BE ACCEPTED* AS FULFILLING THIS PART OF THE REQUIREMENTS FOR

THE DEGREE OF MASTER OF SCIENCE

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THE INTER-AMERICAN COFFEE AGREEMENT

Introduction

On November 28, 1940, the fourteen coffee producing countries of Latin America and the United States, the only sizeable wartime consuming country, signed the Inter-American Coffee Agreement. This action culminated an effort of forty years toward the international cooperative marketing of coffee.

Coffee, as a commodity, is an important factor in the economy of the Americas. All the American republics and Canada consume it in large quantities. Fourteen nations produce it in considerable amounts, largely for exportation, and thus, it is vital in the determination of exchange rate relationships. Table I indicates clearly the relative importance of coffee in the total export trade of each of the producing countries.

TABLE I

RELATIONSHIPS BETWEEN COFFEE EXPORTS AND TOTAL EXPORTS FOR FOURTEEN COUNTRIES, 1938
(in thousands of dollars)

Country	Total Exports	Coffee Exports	Percent
Brazil	$295,558	$133,151	45.0
Columbia	80,477	49,656	61.1
Costa Rica	10,146	4,938	48.7
Cuba	142,678	677	0.4
Dominican Republic	13,859	1,040	7.5
Ecuador	12,619	1,247	9.9
El Salvador	10,946	9,512	88.2
Guatemala	16,336	10,090	61.8
Haiti	6,946	3,465	49.9

(Table I, cont.)

Honduras	7,356	164	2.2
Mexico	113,852	5,684	5.0
Nicaragua	5,884	2,031	34.5
Peru	76,705	389	0.5
Venezuela	274,816	8,218	3.0
Totals	$1,068,187	$230,272	21.6

Sources: Bureau of Foreign and Domestic Commerce, Foreign Commerce Yearbook, 1939; Washington, 1942; pp. 172, passim. The Statesman's Yearbook, 1939; Macmillan Company, London, 1939; p. 815.

Particularly, note the relative importance of coffee in the export trade of El Salvador, Costa Rica, Nicaragua, Haiti, Guatemala, Columbia, and Brazil.

Coffee affects the everyday living of millions of people. The wages of labor and management, the return to capital all depend upon the coffee market. Of no little significance is the coffee trade as a source of governmental revenue for the Latin American countries. The effect of commerce upon the internal economies of each of these countries *per se* affects foreign investment, financing, and purchases.[1]

Coffee markets are not only of vital importance to the producing countries but to the United States as well. Roughly, sufficient coffee was imported into this country in 1938 to prepare sixty-six billion cups of the beverage.[2]

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1. Keeler, Erwin, P., "The Brazilian Coffee-Defense Experiment", Office of Foreign Agricultural Relations, Foreign Agriculture, December, 1937, p. 619.
2. Oficina Panamericana del Cafe, Estadísticas Cafeteras, Mexico, D. F., 1945, Table 654.

Coffee is normally one of the three largest imports; in 1938, it was paramount and second only to crude rubber in 1939.[3] The relative importance of coffee compared to other imports from Latin America is shown in Table II. The amounts indicated as originating in Latin America account for about ninety-seven percent of all United States coffee imports.

TABLE II

FIVE MAJOR IMPORTS INTO THE UNITED STATES
FROM LATIN AMERICA, 1939 AND 1940
(in thousands of dollars)

Commodity	Value, 1939	Commodity	Value, 1940
Coffee	$136,200	Coffee	$124,300
Cane Sugar	75,000	Cane Sugar	69,700
Copper	30,100	Copper	51,900
Bananas	28,800	Crude petroleum and semi-finished oils	47,600
Crude petroleum and semi-finished oils	23,300	Raw wool	46,700

Source: Department of Commerce, International Reference Service, May, 1941; cited in Daniels, Paul C., "The Inter-American Coffee Agreement," Law and Contemporary Problems, Autumn, 1941, p. 709.

Although coffee constitutes but about one-twentieth of all United States' imports, thousands are employed preparing and distributing the one and one-half billion packages sold annually. Steamship lines gross over twelve million dollars, and trucking lines and railroads gross over fifteen million dollars annually from the coffee trade.[4]

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3. Lundgren, Ruth, "Cup of Currency", Pan American Magazine, May, 1946, pp. 5-6. Bynum, Mary L., Coffee, Cocao Bean, and Tea—U. S. Foreign Trade in 1939, Bureau of Foreign and Domestic Commerce, 1940, p. 1.
4. Lundgren, op. cit., p. 6.

The importance of the coffee trade cannot be measured alone in dollars and cents; "political" aspects cannot be ignored. Immediately prior to 1940, the government of the United States was endeavoring to maintain "hemispheric solidarity", a requisite to neutrality and to preparedness. It may have been felt that a healthy relationship between the producing countries and the sole remaining consuming country would do much to bind hemispheric ties more closely.

The coffee trade and the coffee agreement are important, lastly, because of the growing prevalence of intergovernmental commodity controls during the inter-war period. The criticisms of such programs, favorable and adverse, may be applied with more or less validity to control schemes of other commodities. It seems certain that such plans will be an integral factor in the post-war world economy, and it is clear that the Inter-American Coffee Agreement has established the precedent for the Department of State proposals for intergovernmental commodity agreements embodied in the proposed charter for an international trade organization.[5]

The "problem" of coffee as a commodity began about 1900, and an understanding of this situation is vital to an understanding of the coffee agreement and its future. Further,

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5. Department of State, "Preliminary Draft Charter for the International Trade Organization of the United Nations", Commercial Policy Series 98, 1946, Chapter VII.

the story of coffee in the early days is almost completely the story of the coffee policy of Brazil. Consequently, a consideration of the background must be made before the Agreement can be even cursorily examined.

II

THE NATURE OF THE SUPPLY OF AND THE DEMAND FOR COFFEE

The Nature of the Supply of Coffee. One of the chief factors in the supply of coffee is the geographical concentration of production. In 1939-1940, it is estimated that Brazilian production was 22,067,000 sixty kilogram bags (132.276 pounds) or 58.4 percent of the total world production. Columbia, the second largest producer, accounted for only 11.8 percent, and some twenty countries were appreciable producers in smaller amounts.[6] Geographical concentration is increased further in Brazil where the state of Sao Paulo normally produces about two-thirds of the Brazilian crop. Thus, about forty percent of world's production originates in an area about the size of the State of Oregon. Much of the remainder of Brazilian coffee is grown in the immediate environs.[7]

This proximity of producers and productive areas is responsible for two conditions. First of all, it makes world coffee production appreciably vulnerable to weather conditions in one small part of the world. Secondly, producers have thus been encouraged by Nature to cooperate with each other in the marketing of their product.

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6. Wickizer, V. D., The World Coffee Economy with Special Reference to Control Schemes, Food Research Institute, Stanford University, 1943, pp. 242-243.

7. Campos, Carlos Augusto Ribeiro, Atlas Estatistico do Brazil, Departamento Nacional do Cafe, Rio de Janeiro, 1941, p. 46.

The nature of the coffee crop itself is a contributing factor to the supply problem. After the tree is originally planted, four or five years are required before it begins to bear in quantity. Maximum production is not obtained until ten to twelve years have elapsed, and production falls off gradually after the twenty-year mark has been reached.[8] This means that production is particularly insensitive to price change. If a short-run dearth of coffee occurs, high prices and profits encourage new plantings which are not productive for five years when altogether new price conditions may obtain.

Over a long period of time, the costs of production are estimated at from seventy to eighty percent fixed costs.[9] Thus, in any short period, the individual producer harvests and markets his crop regardless of price as long as he anticipates the ability to pay the twenty to thirty percent variable cost. This condition adds, of course, to the nonsensibility of production to market prices.

Unlike most perenials, the coffee tree produces in a cycle all its own. If in a year of favorable weather and the trees are "rested", a bumper crop may be produced. The following two or three years will then produce "short"

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8. Rowe, J. W. F., Markets and Men, Macmillan Company, New York, 1936, p. 28.

9. Ibid., p. 37. For three analyses of these costs, see McCreery, Walter Gay and Bynum, Mary L., "The Coffee Industry in Brazil," Bureau of Foreign and Domestic Commerce, Trade Promotion Series 92, 1930, pp. 68, 69, 74.

crops while the trees recover from their exhaustion. Then in the fourth, fifth, or sixth years after the first bumper crop, depending upon weather conditions, a new bumper crop may be produced. This cycle is predictable only to a limited extent, however. In 1929, a bumper crop followed the last such crop by only two years with disastrous effects upon marketing policy.[10]

The coffee harvest is distributed throughout the year so that there is not a great deal of seasonal fluctuation in prices. Brazil has a long harvest season, and the slack months there are largely offset by harvestings in other countries. Brazilian marketing restrictions have also done much to eliminate seasonal fluctuations in the supply of coffee.[11]

The coffee bean, once harvested and processed for shipment, is very durable and can be stored without serious deterioration over a period of years.

All these factors contribute to a supply of coffee that is insensitive to price change. A high price tends to encourage production for a market five years in the future, but low prices do not cause a great deal of abandonment even though they do discourage new plantings. This combination of factors cause variations in the Brazilian crops so that the

10. Ibid., pp. 30, 35.
11. Coffee, author unknown, Merrill Lynch, Pierce, Fenner, and Beane, New York, 1947, p. 7.

"short" crops may be half the size of bumper crops.[12]

The Nature of the Demand for Coffee. While coffee may be primarily considered a luxury item, the nature of the demand for coffee indicates that the consumer does not consider it as such. In one of the most exhaustive studies of the demand for coffee, the conclusion was reached that the elasticity at the higher prices was approximately a negative eight one-hundredths (-0.08), gradually becoming more elastic at lower prices until an elasticity of negative five-tenths (0.5) obtained.[13] Another extensive statistical study produced the same general conclusion.[14] The National Coffee Association indicates that considerable consumer resistance is met when retail coffee prices reach fifty cents per pound.[15]

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12. Ibid., U. S. Tariff Commission, Economic Controls and Commercial Policy in Brazil, 1945, p. 21. Rowe, op. cit., p. 24.

13. Gilboy, Elizabeth Waterman, "Time Series and the Derivation of Demand and Supply Curves: A Study of Coffee and Tea, 1850-1930", Quarterly Journal of Economics, August 1934, p. 676.

14. Kingston, Jorge, A Lei Estatistico do Demanda do Cafe, Servico de Publicidade Agricola, Rio de Janeiro, 1939, French resume p. 5. Kingston cites the demand as being grandissement "inelastique". The economists and trade generally recognize the inelastic demand. See also: Rowe, op. cit., p. 31; The Economist, April 9, 1932, "Coffee Valorisation", p. 782; Balart, B. D., "Do Low Coffee Prices Increase Buying?", Tea and Coffee Trade Journal, June, 1935, p. 470; Jacob, Heinrich Eduard, Coffee, The Epic of a Commodity, Viking Press, New York, 1935, p. 275; James, Preston E., Brazil, The Odyssey Press, New York, 1946, p. 153; Merrill Lynch, Pierce, Fenner, and Beane, op. cit., p. 7, U. S. Tariff Commission, Foreign Trade of Latin America, 1940, p. 90; Staley, Eugine, Raw Materials in Peace and War, Council on Foreign Relations, New York, 1937, p. 259.

15. Coffee, May-June, 1947, "Coffee Prices and Coffee Consumption", p. 3.

Actually the weather is a much more important determinant in the amounts of coffee consumed than the price as consumption falls off considerably during the summer months.[16] It is further pointed out that, "historically, coffee consumption is less responsive to price changes than almost any other grocery commodity...."[17] Chart I indicates clearly the relationships of prices and consumption over a period of time— substantiating, if not proving, the supposition that the demand for coffee is inelastic.

The inelasticity of the demand for coffee does not mean that factors other than price are inoperative. Table III indicates clearly the change or increase in consumer demand since 1790. It was further estimated that coffee consumption increased 40.6 percent in 1944 over the five year average 1932-1937. A considerable part of this was due to armed forces consumption (32.5 pounds annually per man), but considerable was due to the joint efforts of the National Coffee Association and the Pan American Coffee Bureau to promote coffee consumption.[18]

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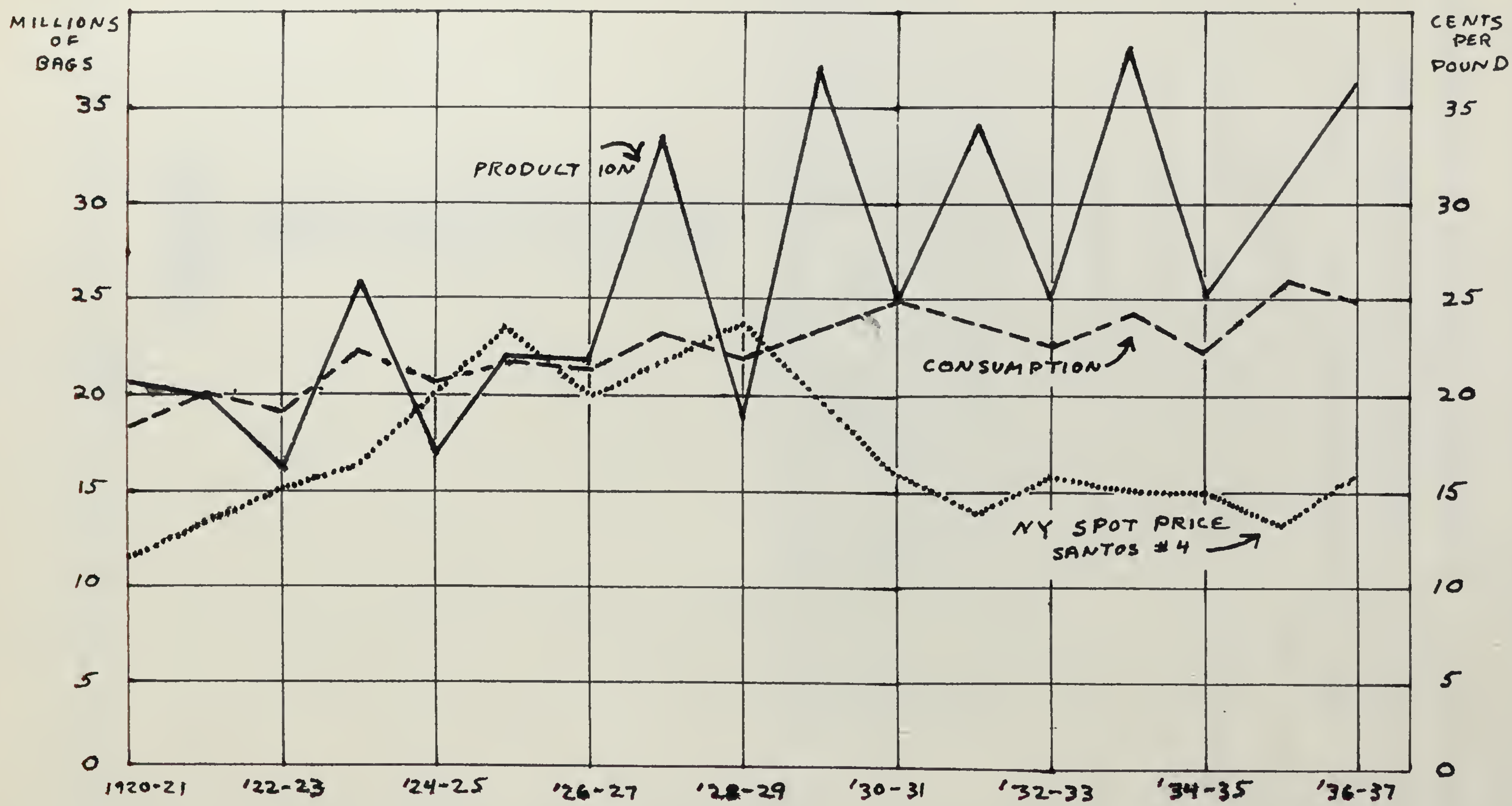
16. Merrill Lynch, Pierce, Fenner, and Beane, op. cit., p. 9.

17. Williamson. W. F., "Coffee Quota Agreement Creates New Trade Problems for 1941", Tea and Coffee Trade Journal, January, 1941, p. 29.

18. Statement by Carlos M. Canal, Secretary-General of the Pan American Coffee Bureau in The Spice Mill, February, 1945, p. 16.

COFFEE: WORLD CONSUMPTION, PRODUCTION, SELECTED PRICES

1921 TO 1937



SOURCE: FOREIGN AGRICULTURE, USDA, DECEMBER, 1937, pp. 628-9, (adapted).

JMH

TABLE III

PER CAPITA CONSUMPTION OF COFFEE IN THE UNITED STATES, 1790 - 1938

Year	Pounds per capita
1790	1.0
1866	4.96
1871	7.91
1876	7.33
1881	8.25
1886	9.36
1891	7.94
1896	8.08
1901	10.43
1906	9.72
1911	9.29
1916	11.20
1921	12.09
1926	12.61
1931	13.93
1936	13.48
1938	15.19

Sources: Ukers, William H., All About Coffee, Tea and Coffee Trade Journal Company, New York, 1922, pp. 288-289; Bynum, Mary L., Coffee, Cocao Bean, and Tea— U. S. Foreign Trade in 1938, Bureau of Foreign and Domestic Commerce, 1939, p. 7. The figures from 1921 were obtained from the second source and would better be called "Per Capita Net Imports of Green Coffee in the Continental United States."

One reason for the relative inelasticity of the demand for coffee is the scarcity of substitutes for it. Chicory and malt coffee are the two chief substitutes, and the degree of substitutibility depends largely upon the psychology of the consumer which in turn depends somewhat upon his geographic location. Beer and wine are suggested as minor substitutes, although they may be considered complementary under certain circumstances.[19] The problem of the use of substitutes is

19. de Bujanda, E. Martinez, "The Economic Aspects of the World Problem of the Production and Consumption of Coffee",

serious to the trade only in emergency situations.

As there are few substitutes for coffee, likewise it has few alternative uses. Until recently, the "surpluses" were burned because the beans failed to make good fuel "briquets", fertilizer, road building material. Since 1939, however, a new possibility has arisen. The H. S. Polin Laboratory for Research in Physics in New York perfected a process for making a plastic from coffee--dubbed "cafelite". The rights to this process were sold to the government of Brazil, and a pilot plant was in the process of construction just prior to the entry of the United States into the war. Since then, machinery has been difficult to secure, and there is no indication of production on a large scale at the time of writing.

Eventually, the process is intended to consume approximately five million bags of coffee per year, presumably of the lower grades. The process is said to be simple and to involve no unfamiliar machinery or special handling. All the raw materials are available in Brazil, and only a few chemicals and reagents must be imported. The physical properties of the plastic seem to make it very desirable. It can be manufactured in almost any color from the pigments obtained from the coffee bean, it is resistant to weak acids and alkalis, is a good insulator for electricity in low frequencies, and absorbs only minute quantities of moisture.

If the program proves successful, coffee that might other-

International Review of Agriculture (Monthly Bulletin of Agricultural Economics and Sociology) no. 6, 1936, p. 187.

wise be destroyed can be made useful, and to the extent that the plastic is used in Brazil, industrialization and diversification of the economy can occur. Because of the unique physical properties of the plastic, it has been estimated that as much as ninety percent will be exported to the United States for combination with the higher priced synthetic resins.

The by-products of the process are expected nearly to pay for the operation. They include such items as coffee oil, which is valuable for its chemical content, is rich in vitamin D, and can be used as a cooking oil or paint mix. The caffeine obtained would give Brazil virtually a monopoly of the world's caffeine production. Fertilizer and bacterial growth agents are also obtained. One bag of coffee is said to produce forty square feet of plastic one-half inch in thickness.[20]

As yet the demand for coffee is the demand for a habit-forming beverage, and as such it is relatively inelastic. The use of coffee as a flavoring for ice cream, candy, and other food articles is becoming more and more important, but it is not significant. The greatest possibility of an alternative market for raw coffee is the cafelite process, but the importance of this use has not yet been determined.

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20. Jobim, Jose, Brazil in the Making, Macmillan Company, New York, 1943, pp. 259, 261; Business Week, March 29, 1941, "Coffee Plastics", pp. 59-60; Bulletin of the Pan American Union, October, 1939, "Coffee Plastics", pp. 294-295; Science Newsletter, May 20, 1939, "New Plastic Made from Coffee Will Aid Brazil", p. 312; Scientific American, October, 1939, "Coffee Plastic", pp. 244-245.

III

BRAZILIAN COFFEE POLICY

Early Valorization Policies. 1885-1896 was a period of golden prosperity for the fazendieros, with several factors contributing to the fabulous profits made during these years. The value of the milreis was declining in the world exchange markets while coffee prices, in terms of gold, remained the same. Thus, for a given quantity of coffee, the producer received an ever increasing number of milreis.[21] During this period, the increasing world demand for coffee was responsible for the relative stability of prices in the face of an ever-increasing supply. Brazil was a comparatively young country at the time, both physically and politically, and land was cheap. Large areas of virgin land were available for the expansion of productive facilities. Lastly, Brazilian labor supply was being constantly increased by immigration, so that higher costs due to a shortage of labor were not met by expanding production.[22] It is not surprising, in view of these favorable conditions, that production increased tremendously.

A cursory examination of the world production record indicates that the situation became much less favorable about 1900. The value of the milreis, no longer declining in value, began

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21. Wallace, Benjamin Bruce, and Edminster, Lynn Ramsay, International Control of Raw Materials, The Brookings Institute, Washington, 1930, p. 125.

22. Hutchinson, Lincoln, "Coffee Valorization in Brazil", Quarterly Journal of Economics, May, 1909, p. 528.

to become increasingly expensive, reversing the advantage that Brazilian producers had enjoyed.[23] In addition, the results of unparalleled prosperity—increased production—began to manifest themselves during this period. Table IV indicates clearly an increased production of over one hundred percent in ten years, a great deal of which was because of increased Brazilian production.

TABLE IV

WORLD PRODUCTION OF COFFEE, 1896 - 1907
(in thousands of 60 Kg. bags)

Year	Production
1896	10,500
1897	14,000
1900-1901	15,070
1901-1902	19,790
1906-1907	23,786

Source: McCreery and Bynum, "The Coffee Industry in Brazil", op. cit., p. 76.

During this decade there was little change in world consumption of coffee; it remained about 12,000,000 bags annually.[24]

These factors, combined with geographical concentration and an inelastic demand, were condusive to attempted price manipulation. In fact, out of these conditions came the first "defense of coffee" or "valorization" schemes.[25]

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23. Wallace and Edminster, op. cit.
24. James, op. cit., pp. 152-154.
25. The term "valorization" was introduced to the English speaking countries about 1906 from the Brazilian "valorizacao" applying to measures regulating the marketing of coffee. Freyre, Gilberto, Brazil: An Interpretation, Alfred A. Knopf, New York, 1945, p. 106. It has been defined as the maintenance of an artificial price for any product by governmental action. Boach, Alfred, "Brazil's Experience with Coffee Valorization", Trade Winds, The Union Trust Company (Cleveland), July, 1930, p. 8.

The first action that was taken was by the state of Sao Paulo in 1902 when it prohibited any new plantings for a five year period. This law, however, could have no effect on production for four to five years, and was, as a matter of fact, never seriously enforced.[26] The weakness in policy of not substantially restricting productive facilities was to limit the success of Brazilian valorization policy throughout its history.

The first serious attempt at restricting the amounts of marketed coffee came in 1906 with the signing of a coffee agreement at Taubate between the three leading coffee states of Brazil: Sao Paulo, Rio de Janeiro, and Minas Geraes. The last two states, however, withdrew from the program, and Sao Paulo carried on alone.[27]

The first valorization scheme consisted of the purchase of coffee by the state and withholding that coffee from the market. Money for this project was obtained in loans from the national government and from foreign sources.[28] By December, 1907, 8,146,123 bags had been purchased and were being held in governmental warehouses. The expected "short" crops did not develop, however, and the program was increased the next year

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26. Wallace and Edminster, op. cit., p. 126. James, op. cit.

27. McCreery and Bynum, op. cit., p. 77. Hamblock, Ernest, His Majesty, The President of Brazil, E. P. Dutton and Co., Inc. New York, 1936, p. 178.

28. Outside the scope of this paper is the story of the coffee trust prosecution in the United States as the result of American assistance in the financing of this project. See: Ukers, William H., All About Coffee, The Tea and Coffee Trade Journal Co., New York, 1922, p. 532.

with the purchase of nearly three million additional bags.[29] Production in 1911-1912 was small, and eventually all the governmentally held coffee was sold at considerable profit.[30]

Ostensibly, this scheme was designed to regularize the marketing of a crop subject to sharp year-to-year fluctuations, to iron out correspondingly wide price fluctuations, and to a certain extent to raise prices.[31] Profit-making on the part of the government was not a primary end, but the fact that Nature cooperated so well and a profit was forthcoming undoubtedly encouraged repetition of the project in later years. The government purchased the poorer grades of coffee which improved the quality of coffees marketed in years with abundant crops.[32]

During World War I, similar marketing difficulties obtained because the European markets were lost to the trade.[33] Once again, a valorization scheme was effected. This venture was financed by foreign loans, again, and by the issuance of paper money. Frosts in the crop year 1917-1918, fortunately for the government, drastically reduced the crop, and some five million bags were liquidated at a profit.[34]

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29. McCreery and Bynum, op. cit., U. S. Tariff Commission, Economic Controls and Commercial Policy in Brazil, p. 21.
30. The Index, The New York Trust Company, "The Brazilian Coffee Valorization Plan", August, 1928, pp. 8-11.
31. Keeler, op. cit.
32. Hutchinson, op. cit.
33. France and Germany are the second largest consumers of coffee. Department of Press and Propoganda, Facts and Information about Brazil, Rio de Janeiro, 1942, p. 57.
34. U. S. Tariff Commission, op. cit., McCreery and Bynum, op. cit.

The European trade did not revive as quickly as anticipated after the war, and 1921 found a coffee "surplus" on hand. The third valorization plan was then put into effect with the aid of foreign bankers and the national government. Approximately four and one-half million bags were withheld from the market—to be profitably sold because of small crops in 1921-1923.[35]

Permanent Brazilian Coffee Valorization. To 1922, valorization schemes were inaugurated largely on the initiative of the state of Sao Paulo and only to alleviate specific emergency conditions. In 1922, however, the national government established the Instituto de Defasa Permanete do Cafe which was to administer a permanent nation-wide policy. National support was withdrawn shortly after the program was inaugurated, and Sao Paulo adopted the essential features of it in 1924. The program was three-fold in scope: (1) Credit was extended to producers at low interest rates with coffee, held in governmental warehouses, as collateral. (2) Coffee was purchased and withheld from the market. (3) An attempt was to be made to increase the demand for coffee through the use of widespread advertising in the market areas. Financing was accomplished by foreign loans and a transportation tax of one milreis ($0.55) per bag of coffee entering the port city of Santos.[36]

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35. Ibid., both references.
36. McCreery and Bynum, op. cit., pp. 77-78.

In 1927 and 1928, seven other coffee producing states agreed to cooperate with Sao Paulo on a sort of production quota basis. Control was maintained by the restriction of coffee entering the ports, and the liberal credit policy was extended.[37]

Relatively high prices had been induced for several years, but only at the expense of large purchases on the part of the government. In 1929, it was estimated that there was a five-year accumulated surplus of 22,586,000 bags of which 21,209,730 were held in interior warehouses of Sao Paulo.[38] The crop in 1928 was large, the second large crop in two years, and prices fell. Crops continued to be large, and in 1930 a national banking crisis was narrowly averted by a ten-year loan of twenty million pounds sterling, secured by sixteen million bags of coffee and agreement that the government would acquire no more coffee during the life of the loan.[39]

General world economic condition, large crops, and the terms of the loan caused the pride of Rio #7 from an average of $0.157 per pound in 1929 to $0.062 per pound in 1931. James cites the price change as from $0.248 in March, 1929 to $0.076 in October, 1931, but does not designate the grade.[40] Undoubtedly, this condition had much to do with the political revolu-

37. Ibid., pp. 81-84, 88.
38. Cameron, C. R., "The Second International Coffee Conference", Bulletin of the Pan American Union, September, 1931, p. 903.
39. U. S. Tariff Commission, op. cit., p. 22.
40. Ibid., pp. 22-23, James, op. cit.

tion in Brazil in the Fall of 1930, especially when it is noted that coffee constituted seventy-five percent of the export trade in 1929.[41]

Because of the change in the political control and the emergency situation, the national government reassumed control of coffee policy in 1930. The National Coffee Council was organized in 1931 for the purchase of coffee stocks and for the initiation of the world famous coffee destruction program. Approximately twenty-nine percent of the crop was destroyed that year (seventy-one percent was to be destroyed in 1937!). A part of this was collected by a very unpopular and short-lived twenty percent tax in kind. A prohibitive tax on new plantings was also imposed.[42] This organization collaborated with the Farm Board in the United States in the trade of 1,050,000 bags of coffee for 25,000,000 bushels of wheat in 1931.[43]

In February, 1933, the National Coffee Department (Departamento Nacional do Cafe) was formed as a permanent organization to replace the National Coffee Council. In that same year, thirty percent quotas were allocated for port entries, a like amount was held in the interior, and forty percent was

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41. Wann, Laurence B., "Over-Production of Raw Materials", Information Service, Foreign Policy Association, Volumne VI, p. 435. Literary Digest, November 1, 1930, "Coffee and Politics Disrupt Brazil", p. 9. Department of Press and Propoganda, op. cit., p. 56.

42. U. S. Tariff Commission, op. cit.

43. Literary Digest, November 5, 1931, "The Big Wheat-Coffee Swap", p. 40.

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III. GYNECOLOGY CLINIC—Patients with an appointment should proceed directly to Room 218 on the second floor. Patients without appointments may be referred to either the Gynecology Clinic or the Medical Clinic I by the Triage Nurse.

IV. MEDICAL CLINIC II—Proceed directly to the second floor by elevator or stairs and report to the receptionist there. Appointments should previously have been made by telephone or in person at the Appointment Clerk's desk on the second floor. Please cancel appointments 24 hours in advance if you are unable to keep them.

V. MENTAL HEALTH CLINIC—Take the elevator to the fourth floor and proceed to the room at the far end of the hall. Sign in or make appointments with the secretary.

VI. ALLERGY CLINIC—After filling in a sign-in slip, proceed directly to Room 131. Allergy injections are given BY APPOINTMENT ONLY.

SEE REVERSE SIDE FOR HEALTH SERVICE INFORMATION.

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designated as a "sacrifice" quota.[44] The policy of coffee destruction was continued, and by the end of 1943, 78,078,809 bags (approximately 10.4 billion pounds) of coffee had been burned.[45] A part of the policy of this organization was the first real attempt to increase the consumption of coffee by (1) an advertising campaign in the United States, and (2) attempting to negotiate international trade agreements whereby tariffs and internal taxes, imposed by importing countries, would be reduced.[46]

It must be noted that Brazil acted alone in marketing restriction schemes. The effect of these policies upon competing producers is important. First of all, most of the coffees produced outside Brazil are "milds", having somewhat different physical characteristics and generally commanding a higher price. For consumption purposes, specified percentages of these milds are mixed with the cheaper Brazilian coffees to produce the commercial "blends". The effect of Brazilian policy on the market was twofold: (1) All coffee prices were raised to a point above what they would have been if all the coffee produced had been marketed. This, of course, was in reality a subsidy of foreign production by the Brazilian government.[47] (2) The normal price differentials between

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44. U. S. Tariff Commission, op. cit., p. 23.

45. Guedes, Jayme F., Brazil Coffee in 1943, Departamento Nacional do Cofe, Rio de Janeiro, 1944, p. 66.

46. Lynsky, Myron, "Agricultural Price-Supporting Measures in Latin America", Bulletin of the Pan American Union, July, 1933, p. 569.

47. U. S. Tariff Commission, op. cit.

"Brazils" and "milds" were reduced, and as "milds" are considered more desirable, a larger proportion of them were purchased than otherwise would have been. The rate of substitutibility was established at certain price differentials, and as that differential was reduced, a larger proportion of the more desirable product was substituted for the other. In short, Brazilian policy not only subsidized the production of foreign coffee but encouraged the substitution of these coffees for domestically produced coffees.

Abandonment of Valorization. Both an absolute and relative loss in the market and the failure to obtain any indication that international cooperation would be forthcoming caused Brazil to abandon partially valorization policies in 1937. Sacrifice and retained quotas were maintained, but the primary policy of the National Coffee Department became one of long-run protection of the position of the industry and not one of price supporting and stabilizing.[48]

Export taxes were reduced from $3.05 per bag to $0.80, and Sao Paulo reduced its transportation tax from $0.42 per bag to $0.24. Further, a previously imposed arbitrary exchange restriction was removed, saving purchasers $0.016 per pound.[49]

The effects of the return to this comparatively competitive situation were several. Table V indicates clearly the

48. Ibid., pp. 23-24. Keeler, op. cit., p. 625.
49. Keeler, op. cit., p. 624. Tea and Coffee Trade Journal, "Brazil Ends 31-Year Coffee Defense Policy", December, 1937, p. 333.

considerable increase, absolutely and relatively, in Brazil's portion of the coffee market. Prices dropped considerably, and in 1938, 290,034,304 pounds more were imported into the United States than in 1937; Brazil's net gain for that year was 324,147,605 pounds.[50] Competing countries were seriously affected by this "coffee war" and were much more willing to consider cooperative marketing than they had been as recepients of the benefits of valorization without having to contribute to its maintenance. Although it was not anticipated at the time, the position of Brazil was greatly enhanced under the Inter-American Coffee Agreement by the abandonment of the valorization policy.[51]

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50. Bynum, Mary L., Coffee, Cocao Bean, and Tea - U. S. Foreign Trade in 1938, Bureau of Foreign and Domestic Commerce, 1939, p. 8.

51. Guedes, Jayme F., Brazil Coffee in 1940, Departamento Nacional co Cafe, Rio de Janeiro, 1941, pp. 27-28. Dr. Guedes, President of the D. N. C., points out that trade in 1938 proved Brazil's true share of the competitive market and that consequently Brazil was allowed some 5,000,000 bags more under the quota than would have been allotted had not Brazil abandoned valorization and consequently increased her trade. He also points out that the two years of competition created a "favorable atmosphere....for a long and profitable discussion of the economic problems of coffee which other Latin American countries were already facing". Without such an atmosphere, collective action would have been impossible. Brazil Coffee in 1942, Departamento Nacional do Cafe, Rio de Janeiro, 1943, p. 17.

TABLE V

IMPORTS OF GREEN OR RAW COFFEE
FROM SELECTED FOREIGN COUNTRIES
(in pounds)

Country of origin	1936	1937	1938	1939
Brazil	1,035,266,225	867,105,178	1,200,252,783	1,230,624,070
Columbia	345,219,701	428,627,833	452,889,916	422,045,083
Costa Rica	7,889,248	12,797,736	13,732,672	10,573,698
Cuba	1,627,693	9,682,498	7,587,277	12,824,198
Dominican Rep.	6,699,479	6,513,040	6,060,771	9,912,024
Ecuador	9,324,285	13,047,000	9,033,372	20,957,770
El Salvador	57,726,263	94,422,421	71,265,767	79,153,947
Guatemala	55,208,379	55,947,757	59,910,314	56,367,962
Haiti	4,373,194	11,848,574	18,113,212	23,102,466
Honduras *		2,021,571	1,133,282	819,436
Mexico	58,784,514	41,097,638	49,945,870	58,191,355
Nicaragua	7,521,722	13,494,890	15,568,486	27,781,309
Peru *		11,865	512,175	362,087
Venezuela	60,645,699	34,973,754	23,950,695	20,170,265
Totals		1,699,126,150	1,998,772,465	1,972,885,670

* Not available for 1936

Sources: Bynum, Mary L. Coffee, Cocao Bean, and Tea - U. S. Foreign Trade in 1938, p. 7, Coffee, Cocao Bean, and Tea - U. S. Foreign Trade in 1939, p. 3, Bureau of Foreign and Domestic Commerce, 1939, 1940. (adapted)

Evaluation of Valorization. There can be little doubt but what valorization schemes were partially successful, particularly in short-run circumstances. Kingston points out that because of the inelastic demand for the product, it was to the advantage of the producer to restrict production in order to secure greater gross revenue (recette globale) in spite of a reduced volume.[52] There is a definite correlation between the destruction of coffee and price movements[53] which becomes even

52. op. cit.
53. Sklarew, Arthur, "Coffee Destruction and Prices", Tea and Coffee Trade Journal, April, 1937, p. 207.

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

[illegible]

more pronounced when one speculates as to what prices would have been without valorization. In short, the assumption is probably valid that the program supported prices more than it raised them.

There is little doubt, further, but that considerable stability was added to the market, particularly in the early schemes that provided for holding coffee until years when the supply was short.[54] In a narrow sense, short-run stability was added to the economy of Brazil. The importance of coffee in the Brazilian economy may be some justification of the policy.

It has been said that the valorization policies improved the qualities of coffees.[55] To some extent, this is true because destroyed coffees were of the poorest qualities. Thus, the average quality of marketed coffees was raised, but one would hardly advocate raising the grades of college students by eliminating all those who could not attain at least a "B" average.

Much more can be said in condemnation of the policy than in its favor. One of the greatest weaknesses was the tendency to encourage production both in Brazil and abroad. No successful plan was devised to limit productive facilities even within the country. There were an estimated 2,040,530,000 trees in Brazil and 1,168,495,000 in the rest of the world in 1926. By

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54. The Index, op. cit.
55. Chermont, T. S., "A Decade of Coffee Control", The Spice Mill, August, 1943, p. 10.

1933, Brazil had 3,075,695,000 trees, and other areas, 1,938,645,000.[56] Abnormally high prices plus a practical guarantee of governmental purchases in Brazil were largely responsible for this increase. In addition, the credit extended from 1925 to 1930 was sufficiently great that it allowed producers the use of that credit to expand their productive facilities, ultimately contributing to the crisis in 1930.[57] Further it was discovered that mere area limitation was not a limitation of production as intensive cultivation was substituted for further extensive cultivation.[58]

The attempt was made to maintain prices so as to insure profits for inefficient high cost producers.[59] This resulted not only in a consumer subsidy to inefficient production, but it artificially diverted productive capacity into less efficient production than it presumably would have been employed in elsewhere.[60] Apparently, then, the tendency was to check agricultural diversification rather than to encourage it.

One of the most serious consequences of valorization was the effect that it had upon production in other countries and thus upon consumption habits. The reasoning of this point has been discussed,[61] but Table VI indicates clearly how the policy

56. de Bujanda, op. cit., p. 188.
57. Rowe, op. cit., p. 48.
58. Jacob, op. cit., p. 256.
59. Rowe, op. cit., p. 48.
60. Staley, op. cit., p. 85. Wallace and Edminster, op. cit., p. 163. For a discussion of the evils of monoculture in Brazil, see Davis, Horace B., "Brazil's Political and Economic Problems", Foreign Policy Reports, May 13, 1935, p. 3.
61. Supra. p. 21.

[illegible]

[illegible]

[illegible]

[illegible]

damaged the coffee position of Brazil. Consumer preferences may have shifted permanently to these "milds", and so Brazil may not be able to recoup this lost share of the market.[62]

TABLE VI

THE RELATIVE SHARE OF BRAZIL
IN THE WORLD COFFEE MARKET IN SELECTED YEARS

Years	Percent of World Market
1910-1914	70
1920-1924	60
1929	58
1937	47
1938	56

Source: U. S. Tariff Commission, Foreign Trade of Latin America, op, cit., p. 86.

The administration of such valorization schemes is an intricate task at best. The nature of the process creates a distinct possibility for corruption and graft. Such charges are very difficult to prove, but several writers have suggested such possibilities in the Brazilian administration.[63]

Staley points out that experience indicates that control authorities make "vast mistakes" and questions whether free competition would not be more productive of a sound economy in the long-run. Control schemes never seem to maintain their limited objectives of ironing out short-run price fluctuation because if the administering group controls sufficient amounts

62. U. S. Tariff Commission, op. cit., p. 23.

63. The Economist, op. cit., cites Rowe. Hambloch, op. cit., pp. 179-180. Mr. Hambloch also suggests that Joseph was the only one ever to make valorization work—and he by prophetic influence. Steffler, E. C. W., "The Defense of Coffee", Commerce and Finance, August 25, 1926, p. 1669. Keeler, op. cit., p. 626.

of the product to influence prices, it also has sufficient power to secure short period monopoly profits. It is very difficult for a political body in a democratic or semi-democratic country to keep prices down when it has the power to raise them.[64]

Relationships, particularly in the 1920's, between control agencies and the importers of coffee were not good. The chief difficulty was the apparent inability of the authority to anticipate the proper amounts and grades of coffee and to have them available for purchase in the ports. The administration of the policies met with severe criticism both from consumers and producers.[65]

Stimulation of demand was generally neglected, particularly during the early stages of coffee defense. Subsequent experience showed that manipulation of the demand by extensive advertising could be made effective.[66]

It is obvious that the policies as they were enforced not only prolonged maladjustment in the industry but actually tended to increase that maladjustment. It seems true that the only alternative to the initiation of the destruction policy in 1931 was the complete disruption of the Brazilian economy and the ruination of many individual producers all over the world.[67] It may have been wise, on the other hand, to have allowed the coffee economy, built upon the sands, to liter-

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64. Staley, op. cit., pp. 83-84.
65. Steffler, op. cit., p. 670. Wallace and Edminster, op. cit., p. 162.
66. Staley, op. cit., p. 84.
67. Davis, op. cit., p. 9.

ally destroy itself with the realization that over a period of time a new and better one would be built. Unfortunately, men live and produce in the short-run, and practical politics must recognize this.[68]

Generally, the conclusion must be reached that restriction is not a cure from troubles arising from excess capacity unless the productive capacity, in the broadest sense of the term, is virtually stationary.[69] Control, to be effective, must thus be effective over production rather than over marketing. High prices may be obtained over a period of a few years, but demoralization of the market is the inevitable end.[70] The editor of the Brazilian publication, O Economista, wrote wisely in 1922: "Instituting permanent protection is instituting permanent crisis."[71]

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68. Rowe, op. cit., p. 44.
69. Ibid., p. 216-218.
70. Wann, op. cit., p. 452.
71. Cited by Schurz, W. L., "Valorization of Brazilian Coffee", Bureau of Foreign and Domestic Commerce, Trade Information Bulletin 72, 1922, p. 6. For other comments condemning the practice, see: A report of Dominick and Dominick cited in Literary Digest, February 22, 1936, "The Coffee Cup Crisis", p. 67, Wann, op. cit., p. 435, Kingston, op. cit.

IV

THE EVOLUTION OF THE AGREEMENT

As early as 1929, an attempt was made to secure international cooperation in the marketing of coffee. The principle producing and consuming countries, except Brazil, met in Seville, Spain and proposed the organization of an international coffee information office. When the office was organized in 1930, only Belgium and Venezuela participated, and the plan was soon abandoned.[73]

Brazil took the initiative in 1930 in an attempt to organize the Latin American coffee producing countries. The first of the conferences was held in Sao Paulo in 1931. The delegate from Columbia did not arrive until the conference was practically over, and there was so much dissention among Brazilian coffee interests as to a program that practically nothing was accomplished.[74]

Brazil attempted to secure an international agreement regarding the planting of coffee at the abortive London Monetary and Economic Conference in 1933, but these proposals came to naught.[75] Specifically, the proposals were that producing countries agree to reduce production and supply through the restriction of new plantings and gradually by the reduction of

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73. Arcoleo, F., "International Organization of the Coffee Market", International Review of Agriculture, (Monthly Bulletin of Agricultural Economics and Sociology) No. 9, 1938, p. 413.
74. Wickizer, op. cit., p. 166.
75. Wickizer, op. cit., p. 171.

productive capacity. Consuming countries were asked (1) to lift import restrictions, (2) to tax coffee no higher than they taxed coffee substitutes, and (3) to impose no taxes over one hundred percent of the value of the product.[76]

The Pan American Coffee Conferences. The first of a series of Pan American coffee conferences was held at Bagota, Columbia in 1936. Nine of the Latin American countries, producers of eighty percent of the world's coffee supply, were represented. Though presumably a conference of coffee growers associations, the conference assumed the characteristics of an intergovernmental conference because several of the coffee associations were actually governmental agencies.[77]

The Pan American Coffee Bureau was established in New York to carry on the task of statistical study and market promotion previously carried on by the Departmento Nacional do Cafe. After reviewing the need for collaborative pricing, the conference resolved "to give active cooperation and put forth every effort....to sustain the price of their respective coffees at a level related to the prices that may be established by Brazilian coffees which prices will be taken as a base."[78]

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76. Arcoleo, op. cit., p. 415. The nature of the demand for coffee makes it an excellent revenue producer when a tariff is applied. The only United States tariff on coffee is a fifteen cent per pound duty on coffee imports in Puerto Rico to protect the market there for domestic production. Tariff Act of 1930, paragraph 1654.

77. Tea and Coffee Trade Journal, November, 1936, "Bagota Conference Adopts an Ambitious Program for Pan American Accord", p. 343.

78. Wickizer, op. cit., p. 169.

Internationally, the conference petitioned the governments of the countries represented to open negotiations with European powers to reduce trade barriers and restriction of American coffees. Although no specific countries were named, the restrictions mentioned were of the type then imposed by Germany.

These resolutions were in no way binding on the governments of the countries represented, and, in fact, little attention was paid to them. Countries, other than Brazil, were reluctant to impair the advantageous position Brazilian practice accorded them, and the problem of "over-production" was primarily Brazil's.[79] Widespread advertising was recognized as desirable, but no program was adopted because of the administrative difficulty of financing it.[80] One of the most valuable resolutions was the resolve to meet annually as this paved the way for later accomplishments.[81]

The Second Pan American Coffee Conference (Havana, 1937) was characterized by the vociferous disappointment of the Brazilian delegation in the other countries not abiding by the resolutions of the preceding year. They made it clear that the policy of valorization would come to an end if international cooperation was not secured, and only Columbia refused

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79. Ibid., p. 171.
80. Tea and Coffee Trade Journal, op. cit., p. 362.
81. Ibid., p. 364.

to acquiesce.[82]

The conference provided for the expansion of the activities of the Pan American Coffee Board by providing that an export tax of $0.05 per bag exported to the United States be levied for contribution to a central advertising fund. This was expected to amount to more than $700,000 annually, eighty percent of which was to be spent in the United States. The principle of individual export quotas was accepted, but no practical application could be reached, and the application was left until a world coffee conference (proposed for 1938 but never held) could be called.[83] It was agreed, however, to limit exports to those qualities above a certain grade, which was in effect a quantitative limitation of marketable coffee.[84]

The Third Pan American Coffee Conference (New York, 1940) met under radically different circumstances. A substantial portion of the normal market was cut off by the war—10,000,000 bags per year or approximately forty-five percent. All producing countries were faced with the problem of (1) a disastrous competitive struggle which none of them could win, or (2) cooperative action.

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82. Tea and Coffee Trade Journal, September, 1937, "Havana Conference Sets Stage for Early Pan American Accord", p. 184. Columbia, the second largest producer of coffee, did not cooperate. Brazil considered this essential, and it will be recalled that Brazil returned to a "competitive" system some two months later.

83. Wickizer, op. cit., p. 171.

84. Tea and Coffee Trade Journal, op. cit., p. 154.

The latter course was agreed upon, but it was felt that the assured cooperation of the United States, the only appreciable market still available, was essential. Secretary of State Hull replied as follows to the query of the president of the coffee conference regarding the attitude of the United States and the proposed coffee agreement.

"....this government would be willing to cooperate with the Third Pan American Coffee Conference in taking the necessary steps,....., to implement a plan of control over the production and marketing of coffee.

"....this willingness to cooperate is dependent upon the ability of the United States government to approve the nature and details of the coffee control program which would be devised.... the government would desire to be officially represented in the negotiations of any control program for coffee, and also to be represented on any body which would be established to administer the plan so set up. I should also point out that the United States government has always taken the position,....., that an essential provision of any such agreement is a recognition of the need for protection of the legitimate interests of consumers as well as of producers, and it would expect that any coffee agreement would contain such provisions...."[85]

Much of the preparatory work for international agreement was done in these extra-governmental Pan American coffee conferences, but because of the nature of the conferences, final

85. Daniels, op. cit., p. 711.

drafting was done by another group.

Juridicial Background of the Agreement. The actual organization from which the Inter-American Coffee Agreement finally emerged as a multilateral treaty dates to the Inter-American Conference for the Maintenance of Peace at Buenos Aires in 1936. This conference created a consultative procedure for intergovernmental council in times of emergency. This procedure was further enhanced at the regular Pan American conference at Lima in 1938. The plan was for the foreign ministers to meet whenever it was felt that the peace and security of the Western hemisphere were endangered.[86]

The first of these meetings was held in Panama from September 23 to October 3, 1939. The most important measure, from the standpoint of this study, was the establishment of the Inter-American Financial and Economic Advisory Committee.[87] This committee was charged with the task of considering various problems of an economic and financial nature, studying the most practical means of obtaining economic stability, and the making of recommendation to the member governments. It was also to consider the possibility of cooperation in marketing as an aid to lessen trade dislocation.[88]

The following year, a similar meeting was held in Havana

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86. Ibid., pp. 711-712.

87. Department of State, Conference Series 44, "Report of the Delegate of the United States of America to the Meeting of the Foreign Ministers of the American Republics", 1940, p. 16.

88. Ibid., p. 17. For the full resolution, see Appendix 9, pp. 50-53.

and at which the Advisory Committee was strengthened and given more explicit instructions. It was specifically instructed:

(1) to prepare detailed plans for the cooperative and temporary handling of existing and prospective surpluses.

(2) to devise means of increasing the consumption of these surpluses through organized relief and other methods.

(3) to develop commodity production agreements and arrangements.

(4) to consider the possibility of a broader system of hemispheric cooperative organization in matter of trade, credit, money, and foreign exchange.[89]

It was authorized to establish sub-committees to carry out the provisions of these mandates, especially in the cases of specific commodities.[90]

Immediately after the second meeting of the foreign ministers, the sub-committee on coffee began work on an agreement to reestablish the orderly marketing of that product.[91] Eventually, an agreement was worked out with American interests, primarily the National Coffee Association, and the Pan American Coffee Bureau collaborating.[92]

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89. Department of State, Conference Series 48, "Second Meeting of the Ministers of Foreign Affairs of the American Republics. The report of the Secretary of State," 1941, p. 26.

90. For the accomplishments of this committee, see The Department of State Bulletin, March 27, 1943, "Inter-American Financial and Economic Advisory Committee", p. 263.

91. Daniels, op. cit., p. 713.

92. Wickizer, op. cit., p. 177.

The chief item of contention in the negotiations, which lasted from August to November, 1940, was the establishment of quotas for the United States. Establishment of quotas on the basis of proportionate world production would have unduly favored those countries which had enjoyed a large European trade. On the other hand, the basis of previous United States' trade would have unduly penalized those same countries.[93] Brazil, of course, favored the use of 1938 as a base year due to the large trade she had that year. The final result was not one of mathematical formula, but one of negotiation and compromise. On November 28, 1940, fourteen producing countries and the United States signed the Agreement.

Ratification. During the negotiations, it was an open question as to whether or not the Agreement was in the nature of an executive agreement. The matter was finally left to the discretion of the individual states. Senatorial consent was required in the United States, and on February 3, 1941, the Senate advised ratification which step the President took on February 12. The Agreement became effective on April 16, 1941 after the signing of a protocol in accordance with the provisions of the Agreement.[94]

In effect, this protocol brought the Agreement into complete force for all countries even though only nine had rati-

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93. Daniels, op. cit., p. 114.
94. Department of State, Treaty Series 970, "Inter-American Coffee Agreement", cover. See also, International Labour Office, Intergovernmental Commodity Control Agreements, Montreal, 1943, pp. 59-68.

fied it; the United States, by signing the protocol, bound herself to respect the quota provisions of the Agreement for all countries whether or not they had ratified the Agreement.[95] Eventually, the original signatories ratified the Agreement, and it became effective for all as of December 31, 1941.[96]

95. Daniels, op. cit., pp. 716-717. The situation was peculiar inasmuch as the United States had prior agreements with some of the countries which had not ratified in which we agreed not to impose quantitative restrictions on our imports. Specific waivers of these clauses were secured.

96. Department of State, Treaty Series 979, "Inter-American Coffee Agreement". The treaty became effective for the following countries on April 16, 1941: Brazil, Columbia, Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Mexico, and the United States. It became effective for Ecuador, April 29; Dominican Republic, April 30; Nicaragua, May 13; Venezuela, August 14; and Cuba, December 31, 1941.

V

THE INTER-AMERICAN COFFEE AGREEMENT

The ostensible purpose of the Agreement is cited in the preamble: "....that in view of the unbalanced situation in the international trade in coffee affecting the economy of the Western Hemisphere, it is necessary and desirable to take steps to promote the orderly marketing of coffee, with a view to assuring terms of trade equitable for both producers and consumers."[97]

This may have been the collective purpose of the signatories, but the actual motives of any one of the signers is not so easily determined. There seems little doubt but what the primary interest of the producing countries was the anticipated price supporting effect of the Agreement.[98] For thirty-odd years, the goal of valorization was price supporting, and it seems unreasonable that good prices did not continue to be a substantial part of the desires of the producers. The purpose of the United States in entering into the Agreement was largely political and/or military. Professor Wickizer points out that any program which increased payments to Latin American countries to compensate in part for the loss of normal European outlets

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97. The text of the Agreement canbe found in several publications:
    (1) Department of State, Treaty Series 970, op. cit.
    (2) International Labour Office, op. cit.
    (3) Inter-American Coffee Board, First Annual Report, 1941-1942.

98. Guedes, op. cit., p. 28.

would have three effects: (1) to strengthen the abilities of those countries to resist Axis pressure, (2) to promote the "Good Neighbor" policy, and (3) to render the strategic position of the United States more secure.[99]

Basic quotas, as established in Articles 1 and 2 of the Agreement, are shown in Table VII. United States Department of Commerce statistics were established as authoritative. World quotas were largely academic, as little effective demand was possible outside this country's market.

TABLE VII

BASIC QUOTAS AS ESTABLISHED IN THE INTER-AMERICAN COFFEE AGREEMENT (in thousands of 60 kg. bags)

Country	U. S. Quota (Art. 1)	Markets other than U. S. (Art. 2)
Brazil	9,300	7,813
Columbia	3,150	1,079
Costa Rica	200	242
Cuba	80	62
Dominican Republic	120	138
Ecuador	150	89
El Salvador	600	527
Guatemala	535	312
Haiti	275	327
Honduras	20	21
Mexico	475	239
Nicaragua	195	114
Peru	25	43
Venezuela	420	606
Total	15,545	11,612

It must be noted that these quotas were not intended to limit the normal consumption of the United States in any way. The total exceeded the peak of importation prior to 1940 by

99. *Op. cit.*, p. 176.

several hundred thousand bags. (See Table VIII) The purpose of these quotas was to prevent the ten million bags of coffee that were normally consumed by the European coffee-drinkers from glutting the United States market.

TABLE VIII

UNITED STATES COFFEE IMPORTS, 1936-1940
(in thousands of 60 kg. bags)

Year	Amount Imported
1936	13,091
1937	12,786
1938	14,950
1939	15,083
1940	15,427

Source: Wickizer, *op. cit.*, App. Table V, p. 247.

The Inter-American Coffee Board was constituted with one representative from each country to administer the Agreement. The seat of the Board was established at Washington, and the Board was given the authority to elect its own officers for a period to be determined by itself.[100] The duties of the Board, other than those enumerated elsewhere, were assigned in Article 10: (1) To assume the general administration of the Agreement; (2) To appoint employees and to determine their pay and duties; (3) To appoint an Executive Committee and such other permanent or temporary committees as deemed advisable; (4) To approve the annual budget and to fix the amounts to be contributed by each government; (5) To seek such information as deemed necessary to the proper administration and operation of the Agreement and to

100. Article 9.

publish such information as deemed advisable; and (6) to make an annual report to the member governments concerning important occurrences of each quota year.

The Board was also instructed to appoint a Secretary and to establish a secretariat which was to be "entirely free and independent of any other national or international organization or institution".[101] Article 11 provided that the Board undertake a study of the surpluses and take such action, where urgently needed to stabilize the coffee industry, as necessary with a view to financing the storage of such surpluses. It was further provided with the authority to assist and advise in the securing of loans to expedite the operation of the Agreement. Another provision empowered it to appoint advisory committees in the important market centers.[102]

The expenses of the delegates were to be borne directly by their respective governments, but all other expenses were to be paid by the Board from funds contributed by the member governments on the same proportionate basis as the basic quotas, except that the share of the United States was one-third.[103]

One of the most note-worthy administrative features was the schedule of weighted voting provided in Article 15.

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101. Article 12.
102. Article 18.
103. Article 13.

TABLE IX

VOTING STRENGTH OF MEMBER COUNTRIES

Member	Number of Votes
Brazil	9
Columbia	3
Costa Rica	1
Cuba	1
Dominican Republic	1
Ecuador	1
El Salvador	1
Guatemala	1
Haiti	1
Honduras	1
Mexico	1
Nicaragua	1
Peru	1
United States	12
Venezuela	1
Total	36

Meetings were scheduled quarterly with the usual provisions for special meetings. Seventy-five percent of the total vote represented a quorum, and written authority was all that was necessary for one country to be represented by the delegate of another. Except as otherwise specifically stated, decisions were to be made by a simple majority of the weighted votes.[104]

The quota provisions were not so rigid as they initially appear. The Board was given the authority to change the United States quota in order to adjust supplies to estimated requirements. In order to eliminate some of the evils of speculation on the Board's actions, this authority was limited to changes of not more than five percent not oftener than every six months. The Board was also authorized to adjust the world market quotas as it deemed necessary, but it was prohibited from allocating

104. Article 14.

markets on a geographical basis. In neither case was it authorized to vary the proportions established in the basic quotas.[105]

Additional flexibility was authorized if a coffee shortage appeared emminent in the United States. The Board was authorized to increase the quotas for the United States markets, in "quota proportions", to satisfy the requirements regardless of exceeding the five percent requirements mentioned above. Any member could request this increase, and a one-third vote was sufficient for passage. In reducing the quotas beyond the limits of Article 3, unanimity was required.[106] Practice established this adjustment of quotas as one of the Board's most important functions.

Each of the producing countries agreed to limit its exports as outlined in the quota provisions and to supply each shipment with an official certification that it was within the quota. Deficiencies in any one year's shipments could be made up, to ten percent, by adding them to the following year's quota.[107] On the other hand, the United States agreed to limit its imports according to the quota schedule with a basic allowance of 355,000 bags per year, subject to equal changes with the other quotas, from non-signatory countries.[108]

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105. Article 3. Article 5 provided an exception to that provision. The Board was empowered, by two thirds vote, to transfer on the request of a member, a part of that country's quota from the United States' trade to the world quota. The shortage in the basic quota for the United States was to be distributed on a proportionate basis among the other members.

106. Article 8.

107. Articles 4 and 6.

108. Article 7.

In order to prevent conflict with existing commitments, the Agreement provided prevalence for itself as long as it remained in force over inconsistencies contained in any other agreements between signatory nations.[109]

Article 20 provided the means by which the Agreement was actually brought into force. It established a waiting period of ninety days from signature (November 28, 1940) for completion of the ratification process. If ratification were not then complete, the countries which had ratified it could bring it into effect among themselves by means of a protocol.[110]

The agreement was to remain in force until October 1, 1943.[111] Not less than one year prior to the date of termination, the Board was to consider continuation of the Agreement and to make recommendations to the member governments. If unanimous agreement was reached thereupon, the Agreement could be extended by a certification of the Board deposited with the Pan American Union. This method was twice used to extend the Agreement to October, 1945.[112]

A transitory article actually placed the quota provisions of the Agreement in effect as of October 1, 1940 by providing that coffee exported between that date and September 30, 1941,

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109. *Supra.*, pp. 37-38, Chapter IV, Article 21.
110. *International Labour Office*, *op. cit.*, p. 67.
111. An exception to this was provided. Withdrawal on one year's notice was permissable, and if one or more countries having a total of twenty percent of the basic quota withdrew, the Agreement was to terminate automatically. (Article 25)
112. *Infra.*, pp. 66-67.

either to the United States or to other markets, be charged against the quotas for the first quota year.

Implementation of the Agreement by the United States. Inasmuch as the Agreement was a treaty and not an agreement of the reciprocal trade type, legislation was necessary to provide the means of enforcing it.[113] Among other considerations, it was doubtful if the Treasury Department had sufficient authority to exclude imports of coffee in excess of the amounts of the quotas. The Secretary of State, through the President, requested legislation to render the treaty effective.[114] Eventually, the required legislation was passed stating: (1) that after the entry into force of the Inter-American Coffee Agreement and during its continuation, no coffee from any foreign country could be entered for consumption except under the provisions of the Agreement, (2) that the President was authorized to allocate quotas to non-signatory countries, and (3) that compliance with the President's regulations and rules necessary to carry out the Agreement would be a condition for the entry of coffee.[115]

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113. Tea and Coffee Trade Journal, January, 1941, "Implementing the Coffee Quota Pact", p. 9.

114. Seventy-Seventh Congress, First Session, Senate Report No. 74, "Implementing the Inter-American Coffee Agreement". This report includes all the documentation and correspondence.

115. Seventy-Seventh Congress, First Session, Statutes at Large, "Public Law No. 33", pp. 133-134. For full documentation on the passage of this joint resolution, see footnotes 114, 115, and: (1) Seventy-Seventh Congress, First Session, House of Representatives Report No. 330, Parts 1 and 2.
(2) Seventy-Seventh Congress, First Session, House of Representatives Report No. 331.

The President, using this law as his authority, established the quotas for non-signatory countries on April 22, 1941. The order was later amended so that the quotas were stated in percentage terms.[116]

<u>Reactions to the Agreement</u>. Considerable of the comment which was made on the Agreement was made at the time it became operative. Several of these are worthy of note because of their content and because of the insight which they give into the expectations of the effects of the Agreement.

Brazilian comment was generally very favorable. Even before the Agreement became effective, prices had risen substantially in anticipation of still higher prices under the quota. Dr. Guedes wrote as follows:

"Thus, with the valuable assistance of the United States, we are carrying out a sound policy of international cooperation, in which some countries will not be able to benefit to the detrement of others."[117]

"The Inter-American Coffee Agreement....represents one of the most advanced steps of directed economy in the field of International Public Law. There is no record of a pact between nations of the magnitude of that agreement, as regards its intrinsic characteristics, the number of the participating countries, and the peculiarities of the interests affected....It would have been impossible to create this admirable organization to the full extent and with the stability which characterizes it, without the cooperation -- valuable from every point of view -- of the United States of America, this great country to which we are so solidbound by friendly ties from the remotest eras, ties which

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116. Executive Order No. 8738, "Allocating the Quota Under the Inter-American Coffee Agreement for Countries not Signatory to the Agreement", <u>Federal Register</u>, 1941, p. 2047. Executive Order No. 8774, "Modifying Order No. 8738 of 21 April 1941 Allocating by Types the Coffee Quotas for Countries not Signtories of the Inter-American Coffee Agreement", <u>Federal Register</u>, 1941, p. 2845. Executive Order No. 8863, "Allocating the Quota Under the Inter-American Coffee Agreement of Countires not Signatory", <u>Federal Register</u>, 1941, pp. 4319-4320.

117. Guedes, <u>Brazil Coffee in 1940</u>, p. 26.

have developed into the most close political, commercial, economic, and amicable relations.... It is very likely one of the most solid proofs of the Pan-American spirit, because with its structure we have consecrated the maintenance of the welfare of many other American countries, particularly those which depend upon coffee as a sole economic basis".[118]

Secretary Hull, after pointing out that the Agreement would in no way affect shipments of coffee into the United States from our territories and possessions, stated in a letter to the President that the Inter-American Coffee Agreement was ".... an unprecedented step in the economic history of the American Republics... a distinct practical achievement in the field of Inter-American relations."[119]

Mr. Paul C. Daniels, the first chairman of the Inter-American Coffee Board, wrote of the Agreement: ".... it should be emphasized that the unique and unprecedented feature of this cooperative arrangement is the provision for consumer representation in an international agreement intended to stabilize the market for an important raw material.... The participation of the United States in the Inter-American Coffee Agreement marks a new milestone in the progress of international economic thinking. It is concrete evidence of the fact that the terms of trade must be equitable for consumers as well as producers, and that both should be equally cognizant of the vital needs of the other."[120]

Perhaps the most obdurate opposition to the Agreement was voiced in the minority report of the Ways and Means Committee

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118. Guedes, Brazil Coffee in 1941, pp. 32-33.
119. Seventy-Seventh Congress, First Session, House of Representatives Report No. 330.
120. Daniels, op. cit., p. 175.

during the discussions of the "implementing" legislation. Several points served as the bases for the opposition argument:

(1) It provided a tax on the American Breakfast table.

(2) It was the same as a tariff duty except that the receipts accrued to foreign nationals instead of to the government of the United States.

(3) It was in exact opposition to the Republican policy of not taxing those commodities which are needed and are not domestically produced and taxing those commodities in which foreign competition is met in the domestic market.

(4) The Agreement was the "first time this country has ever undertaken to restrain imports of a product by a general application of quotas imposed at the request of foreign governments."

(5) In 1940, the United States imported two billion pounds of coffee. If the Agreement raised the price of coffee as much as three cents per pound, this would impose a $60,000,000 tax bill on the American people. The Representatives thought that such a measure carried the "Good Neighbor policy too far."[121]

Professor Wickizer cites the pact as inspired and made possible by abnormal conditions arising from war. He points out that it was one step in planned hemispheric solidarity but with all the risks of any scheme amounting to political subsidy.[122]

The coffee trade of the United States, in general, approved the plan. "The coffee trade has and does support the quota system as written into the treaty believing it a necessary and desirable action."[123]

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121. House of Representatives Report No. 330, op. cit., part 2. It was further pointed out in this report that the Republicans always favored tariffs on competitive foreign products as a means of equalizing differences in production costs at home and abroad. Such a policy is not economically sound.

122. Op. cit., p. 176.

123. In a telegram to the Board from the National Coffee Association, Inter-American Coffee Board, op. cit., Appendix No. 12, p. 74.

Senatorial comment at the time of ratification centered largely on the fact that the Agreement would cause an increase in prices of coffee and that the consumer would be forced to pay it. It was the general opinion, however, that this cost was well-worth while in securing stability in the producing countries.[124]

124. For synopses of these statements, see: Tea and Coffee Trade Journal, March 1941, pp. 14, 45.

VI

THE OPERATION OF THE AGREEMENT

The Board and the Secretariat. The Inter-American Coffee Board held its initial meeting the day after the protocol making the treaty effective was signed (April 16, 1941). Dr. Hector C. Castro, Minister of El Salvador to the United States, opened the meeting in his capacity as of chairman of the subcommittee on coffee of the Inter-American Financial and Economic Advisory Committee.

The first action of the Board was to elect Mr. Paul C. Daniels, the delegate of the United States, as chairman for one year. Sehnor Eurico Penteado, the delegate of Brazil and chairman of the Pan American Coffee Bureau, was selected as vice chairman. The delegates of Brazil, Columbia, Guatemala, the United States, and El Salvador were named to the Executive Committee. Practice established the procedure of consideration of important matters by this committee prior to discussion by the Board. The following April 7, the same officers were elected to succeed themselves for a period of one year.[125]

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[125] Inter-American Coffee Board, op. cit., pp. 10-11. Chairmanship of the Board by the delegate of the United States was continuous. Mr. Emilio G. Collado succeeded Mr. Daniels on December 16, 1943 and was soon followed by Mr. Edward G. Cale, the present chairman and United States delegate. Delegates of the United States have habitually been Department of State officials. Department of State, International Agencies in which the United States Participates, Publication 2699, Washington, 1946, pp. 78-80.

Herbert Delafield, a past president of the Associated Coffee Industries of America, was appointed as Secretary of the Board. This position became one of considerable importance in matters of liaison between both the coffee industries and the governmental agencies concerned with coffee policies. Mr. Enrique Comas, previously secretary of the Inter-American Financial and Economic Advisory Committee, was named assistant secretary.[126]

The actual cost of Board operations is comparatively insignificant. A budget of $18,000 was approved for the quota year ending in September, 1941; thereafter it was $24,000.[127] These amounts covered such items as salaries to the secretariat, rent, office supplies and expenses, and the publication of the annual reports.

The Board attempted to adhere to several general principles in its operating policy.

(1) The orderly marketing of coffee -- equitable to both consumers and producers.

(2) The maintenance, as nearly as possible, of normal trading.

(3) Unanimity of decisions made by the Board and the full cooperation of all signatories.

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126. Ibid., pp. 11-13.
127. Ibid., pp. 12, 129-30. Second Annual Report, 1942-1943, pp. 88-90. Third Annual Report, 1943-1944, pp. 97-99. Fourth Annual Report, 1944-1945, pp. 119-120.

(4) Strict compliance of the members of the Board to the obligations of the treaty.

(5) The administration of the pact so as to avoid as many business losses and inconveniences as possible.

(6) The improvement of the quality of imported coffees.

(7) The administration of the pact so as to encourage and to make possible the faithful fulfillment of contracts.

(8) The publication of such information as would improve the coffee trade and the administration of the Agreement.

(9) Consultation with coffee interests in order to secure advice, a better understanding, and to obtain the reactions of business to the actions of the Board.[128]

In general, the Board served a very useful function in providing a sort of clearing house for all important coffee problems. It provided a means of contact between three interests: the producer, the consuming industrialists, and the governments. One real value was to have a Board of continuity to handle specific problems as they arose.[129]

Operational Implementation. Two problems arose in the first four weeks of the operation of the Board which required action on the part of the United States.

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128. Daniels, Paul C., "The Policies of the Coffee Board Framed to Aid Entire Industry", Tea and Coffee Trade Journal, October, 1942, pp. 16B ff.

129. Inter-American Coffee Board, First Annual Report, 1941-1942, p. 13. Daniels, "Inter-American Coffee Agreement", op. cit., pp. 719-720.

The first arose from the fact that coffee prices in the United States were higher than elsewhere, Canada in particular. This encouraged shipment of coffee from Latin American ports under the world market quota with subsequent diversion to United States markets -- to a limited extent destroying the effect of the quota provisions and certainly working hardship on those acting honestly under the program. On May 15, the Board issued a statement condemning this practice and promised to take effective steps to terminate it. This statement, in itself, was not sufficient to stop the procedure, and on August 26, the Board requested the aid of the government of the United States.[130] Assistance was soon forthcoming; the President signed an Executive Order refusing the entry of coffee without the certification of American consular officers in foreign ports that the coffee was certified charged against the proper quota prior to shipment.[131]

In connection with the principle of maintaining as nearly a normal trade as possible, the Board requested the United States to modify its entry policy so that coffee samples would be permitted to enter the country, for which the treaty made no provision. The entry procedure was also amended by Executive Order.[132]

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130. Ibid., pp. 24-25, 64, 95.

131. Executive Order No. 8902, "Prescribing Regulations Pertaining to the Entry of Coffee into the United States from Countries Signatory to the Inter-American Coffee Agreement", Federal Register, 1941, p. 4809. The authority for this order was Public Law No. 33, Section 2, discussed above.

132. Executive Order No. 8909, "Authorizing the Secretary of the Treasury to Permit the Entry of Bonafide Samples of Coffee without Regard to Import Restrictions", Federal Register, 1941, p. 4929.

Coffee Prices under the Agreement. Obviously, one of the problems faced by the Board was that of prices. Both the producing countries and the United States were vitally concerned and somewhat diametrically opposed in interest. Price control was not mentioned, as such, in the Agreement, but the Board was given sufficient control over the supply that it potentially had the power to exercise considerable influence on prices although the means for strong control were not provided. Prices were to be "fair" or "equitable", but no criterion of fairness was established.

There is little doubt, however, that one of the purposes of the Agreement was to support and even to raise coffee prices in view of the effort to make coffee production profitable. Roughly, assuming that one hundred percent more coffee would have entered the United States market without the Agreement and that other factors remained equal, prices, with an inelastic demand for the product, would have decreased by more than fifty percent. It was even suggested that one of the purposes of the Agreement was to enable producers to sell their crops at prices which would enable them to recoup the loss of the European market.[133]

A cursory examination of the nature of the price change is important although by no means can it be assumed that the effect of the Agreement was responsible for the full change in price.

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133. Wickizer, op. cit., p. 181; Daniels, op. cit., p. 719; Guedes, Brazil Coffee in 1941, p. 34.

The following changes were noted in specific types of coffee.

TABLE X

PRICE CHANGES IN TYPES OF COFFEE, 1938-1942
(in cents per pound - New York spot quotations)

Year	Santos (type 4)	Rio (type 7)
1938	7.67	5.25
1939	7.50	5.37
1940	7.0	5.37
1941	11.12	7.87
1942	13.37	9.76

Source: Guedes, Brazil Coffee in 1942, p. 39.

The average price per bag on board in Brazil in 1942 was 47.96 percent higher than the price of 1941 and 104.7 percent above the 1940 price.[134] There is little point in carrying this analysis further, in point of time, as ceiling prices were placed on green coffees late in 1941 and so affected the maximum selling prices.

A part of the motive of the United States in entering into this Agreement was the promotion of "goodwill" among the Latin American countries. Table XI indicates clearly the change in the situation of Brazil, a part of which can be attributed to the coffee pact, and which change it is not unreasonable to assume obtained in similar degree in the other countries. This advantage does not necessarily equate the intangible "goodwill" but it is probable that the correlation between the two is high. The average value of the cruzeiro for the period was $0.051137, making the total benefit from the rise in price roughly

134. Guedes, Brazil Coffee in 1942, pp. 51-52.

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[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]

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$150,000,000.[135]

TABLE XI

PRICES OBTAINED AND PRICES OBTAINABLE
AT 1940 PRICES ON EXPORTED COFFEE OF BRAZIL
1941-1943
(in thousands of cruzeiros)

Year	Number of bags	Value actually obtained	Value obtainable at 1940 prices	Advantage gained
1941	11,054,566	2,017,544	1,458,207	559,337
1942	7,279,658	1,965,737	960,259	1,005,478
1943	10,450,193	2,803,768	1,334,397	1,469,371
Total	28,450,193	6,787,049	3,752,863	3,034,186

Source: Guedes, Brazil Coffee in 1943, p. 32.

What actually happened in the Brazilian coffee economy is demonstrated in Table XII. It is especially notable that in 1942 the exportation of coffee was less than half that of the base year of 1933 while by value trade was only four percent smaller. The trade of 1943 was sixty-five percent of the base while revenue was 137 percent of the 1933 amount.

TABLE XII

EXPORTATION OF COFFEE FROM BRAZIL, 1933-1943

YEAR	Quantity (60 kg bags)	Index	Value (cruzeiros)	Index
1933	15,459,309	100	2,052,858,224	100
1934	14,146,879	92	2,114,511,730	130
1935	15,328,719	99	2,156,599,349	105
1936	14,185,506	92	2,231,472,515	109
1937	12,113,088	78	2,128,615,805	104
1938	17,203,422	111	2,296,010,010	112
1939	16,645,093	108	2,254,115,311	110
1940	12,053,499	78	1,589,956,317	77
1941	11,054,566	72	2,017,544,619	98
1942	7,279,658	47	1,965,737,336	96
1943	10,115,969	65	2,803,768,085	137

135. Department of Commerce, op. cit., "Foreign Exchange Rates", p. 971.

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1933 = 100

Sources: Guedes, Brazil Coffee in 1942, p. 54; Brazil Coffee in 1943, p. 29.

The Agreement and Domestic Price Policy. With the rising prices of green coffees abroad, it is not surprising that the Office of Price Administration stated in September, 1941, that complaints about the rising costs of green coffee (as much as 100 percent in one year) were becoming more numerous. The OPA attributed this rise in price to (1) conditions brought about by the Agreement, (2) fear of a shipping shortage, (3) export controls by Latin American countries, (4) speculation in the United States.[136] A fifth factor is not to be ignored. Consumer goods in the United States were becoming increasingly more scarce while the amounts of money available for expenditure on consumption goods was ever increasing. This meant a higher price for those goods which were available.

Shortly after Pearl Harbor, the OPA froze all coffee prices as of December 8. This was only a temporary measure to prevent runaway prices, and a more detailed schedule was published on December 27. The Board collaborated in the preparation of this schedule, a rather difficult administrative task because of the necessity for proper adjustment of the differentials between numerous grades of coffees -- affecting as many producer interests.[137] On the same date and at the re-

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136. Office of Price Administration, Consumer Prices, September 15, 1945, as cited in Wickizer, op. cit., p. 183.

137. Inter-American Coffee Board, First Annual Report, 1941-1942, pp. 27-28. For the detailed correspondence relative to these differentials between the Board and the OPA, see pp. 102-106.

quest of the OPA, the Board issued a statement in support of the revised coffee schedule.[138] This schedule was further revised to include practically all types of coffee in a more specific manner.[139]

Price ceilings were maintained throughout the duration of the war which alledgedly caused considerable hardship in the producing countries. In February, 1945, Mr. Penteado reported that the prices of practically all products imported by coffee producing countries had gone up and also that the economies of producing countries were experiencing price rises. An inflexible price ceiling was difficult to bear. At the same time, he reported that millions of Brazilian trees were being abandonned because coffee production was no longer profitable.[140] Further, average cost of production increases from 1941 to 1944 were calculated by the Board:[141]

Wages	75%
Machinery, instruments, and tools	80
Transportation and packing	90
Vehicles	100

Some justification for the request for an upward revision of price ceilings appears to be warranted, but the policy of "holding the line" in the United States was responsible for the government refusing the request.[142]

In the period of transition, adjustment was made by the government of the United States by two increases in ceiling

138. Ibid., pp. 28, 107.
139. Guedes, Brazil Coffee in 1942, p. 45.
140. Penteado, Eurico, "The Facts on the Coffee Situation", Bulletin of the Pan American Union, February, 1945, p. 117.
141. Inter-American Coffee Board, Fourth Annual Report, 1944-1945, p. 51.
142. Ibid., p. 53.

prices and a subsidy on coffee imports. The subsidy was paid at the rate of three cents per pound on a maximum of 6,000,000 bags purchased between November 19, 1945 and March 31, 1946. This program was renewed to July 1, 1946 with an increase in the price ceilings of $0.02075 per pound. After the subsidy program became inoperative, the price ceiling was raised to $0.0832 per pound above the original ceilings of 1941.[143]

Price control, in the early stages, would not have been difficult had not considerations other than pure economic control been of such importance. In spite of attempted control early price rises were experienced. Business Week summarized the reasons for permitting this rise as follows:[144] (1) Increased coffee prices would improve the "Good Neighbor" relations and make for hemispheric solidarity by contributing to the economic welfare of the Latin American countries. (2) If the American consumer paid more for coffee, this would increase the purchasing power of the Latin American countries, and they would have been able to buy more here. (3) The United States should have cushioned the effects of the war on Latin American countries, many of which were largely dependent upon coffee exports. (4) The American housewife did not know within a few cents what her coffee cost her anyhow. With the exception of the first, there is little merit in these reasons. Particularly, it is to be noted that goods for export were becoming less plentiful in this country.

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143. Inter-American Coffee Board, Fifth Annual Report, 1945-1946, pp. 10, 14, 15.

144. February 15, 1942, p. 42.

Between the natural desires of producing countries to secure high coffee prices and the efforts of the consumer to secure low-priced coffee, the Board, within its limited price-control powers, derived a formula of considerable merit both for the temporary situation and for the long run. It noted the desirability of maintaining prices sufficiently high to promote economic well-being in the producing countries and at the same time sufficiently low to encourage increased consumption.[145]

Minimum Export Prices. A considerable problem arose early in the operation of the Agreement as the result of the Columbian and Brazilian policies on minimum export prices. In November, 1940, Columbia placed minimum export prices upon coffee, and by the end of March had raised these "floors" some twelve times. Brazil adopted a similar policy in June, 1941.

From the point of view of the consumer, although not prohibited by the Agreement, this practice was not within the spirit of its terms.[146] The policy appeared to be an effort to raise prices, already higher than they would have been without the Agreement, by taking unfair advantage of the consumer. This view was further substantiated by the coincidence of these schemes with a considerable rise in the price of consumers' coffee.

In this connection, Wickizer points out that: "Coffee growers appeared to feel that they could....exact almost any

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145. Daniels, op. cit., p. 719.
146. Wickizer, op. cit., p. 183.

price for coffee that they wanted.... The United States did not wish to disturb relations with the countries to the South, but nevertheless showed no disposition to be exploited without limit."[147]

The assumption that minimum export price regulations were the only causal factors in the price rise is unwarranted. The experience of Columbia in having to raise the minimum price twelve times in five months indicates that other factors were responsible for the price rise. Theoretically, the practice may have prevented any fluctuations downward, but the price pattern during this period indicates that prices were constantly rising.

Defenders of the policy expressed logical argument supporting it. They pointed out that one of the purposes of the Agreement was to insure reasonable prices to producers. Without a price floor, they contended that the potential advantages of the quota system could accrue to the importers who purchased in a buyers' market and sold in the market in which restricted amounts were available rather than to the producers.

With this in mind, minimum prices were established somewhat lower than prices on the New York "spot" market. "We left the door open for commercial competition to arrange for our quotations of the product to look for parity with the prices of coffees from other sources."[148] Less justifiable

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147. Ibid., p. 185.
148. Guedes, Brazil Coffee in 1941, pp. 34-35. For a description of the "spot" market, see Uker's International Tea and Coffee Buyers' Guide, 1944-1945, The Tea and Coffee Trade Journal Company, New York, 1945, p. 110.

was the argument that minimum prices were necessary to maintain the differentials between Brazilian and Columbian coffees. It is doubtful if there is or should be an immutable price differential regardless of the Agreement.[149]

The Board considered the problem at some length, recognizing the validity of both points of view. It unanimously agreed, finally, that minimum prices had sufficient merit to justify their maintenance but that they should not be established "at levels exceeding the market prices which would exist under normal operation of the quota system nor should they prevent normal price fluctuations nor disturb the normal and usual operation of the trade."[150]

The Board had previously recognized this situation and had exercised the authority granted it in Article 8 in increasing the basic quotas an additional twenty percent. It was expected that this increase in the quotas would reduce coffee prices in the United States. This was partially justified as follows:

> "3. Recent developments in the coffee market of the United States which have been caused in some measure by official acts not contemplated in the Inter-American Coffee Agreement, threaten to disrupt the orderly marketing conditions and the normal business of coffee roasting establishments throughout the United States, and are making it difficult for many of these establishments to satisfy their normal requirements except on terms of trade considered inequitable."[151]

The cöoperation of producing countries was essential, and as this was extended, the problem was satisfactorily resolved.

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149. Ibid., pp. 35-36.

150. Inter-American Coffee Board, First Annual Report, 1941-1942, pp. 27, 97-98.

151. Ibid., p. 92. The italics are mine. Wickizer, op. cit., pp. 185-186.

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Shortly after the above decision was announced, and "following the conclusions of certain other agreements", the authority of Article 8 was again evoked, and the quotas were reduced to 110 percent of the basic quota.[152]

Shipping and Quota Adjustments. One of the most important factors affecting the supply of coffee and consequently its price was the shortage of shipping facilities which grew out of wartime conditions. This was outside of the control of the Board, but it was because of this condition that the Board was most active in facilitating trade.

Foreseeing a possible shortage of transportation in May, 1941, the Board authorized the advance shipment of fifteen percent of the 1941-1942 quota providing it was stored and not entered for consumption before October 1, 1941.[153]

The shipping situation became serious, and on March 5, 1942, the Board made public its intention to remove its fifteen percent limitation on advance shipments should it become a hinderance to the importation of coffee. On April 29, it was forced to remove the fifteen percent stipulation, but the restriction of entry for consumption before October 1, 1942 was retained.[154]

The extreme shipping shortage in the summer of 1942 forced the Board to practically abandon the quota provisions of the Agreement. It became apparent that the more fortuitously situated countries, geographically, could more than fulfull their

153. Ibid., pp. 67-68. This proposal was renewed for the 1941-1942 quota year. pp. 99-100.
154. Ibid., p. 121.

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quotas while the others could not. Brazil, for example, was not able to ship 2,659,279 bags of her 1941-1942 quota while other countries were able to ship considerably over their quotas.[155]

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155. Although not an integral part of the Inter-American Coffee Agreement nor directly concerned with the administration of the Agreement, a consequent contract between the United States and Brazil deserves brief review as a vehicle for insight into the cost of the Agreement.

Terms of this contract, signed October 3, 1942, were as follows:

(1) The two governments agreed to take all possible measures to facilitate the shipment of coffee.

(2) The Commodity Credit Corporation agreed to purchase, through regular commercial channels, that part of the 1941-1942 quota which was not shipped on September 30, an agreed amount of 2,659,279 bags. Further the CCC agreed to purchase that amount of the 1942-1943 quota which could not be shipped, up to 9,300,000 bags.

(3) The price was established at either OPA ceiling or market prices, whichever was lower, less two percent for administrative expenses. Ninety days warehousing was to be received free after which the expense was to be borne by the CCC.

(4) Coffee purchased under the Agreement could be shipped to the United States as a part of the 1942-1943 quota providing simultaneous purchase of an equal amount was made. Similarly, purchases, in danger of deterioration from prolonged storage, could be sold in the Brazilian market as long as an equal simultaneous purchase was made.

Two reasons are given for this policy, not at all an obligation of the United States: (1) To give Brazil a partial payment for not being able to ship her full quota, and (2) To gain a consideration from Brazil in the granting of shipping preferences to higher priority, but less profitable, goods.

In August, 1944, the CCC reported holding $276,819,000 in coffee and that from May, 1942, to December, 1943, it had purchased 46,489 short tons of coffee. This may have been the result of fulfillment or partial fulfillment of this contract.

New York Times, October 7, 1942, p. 40; Guedes, _Brazil Coffee in 1942_, pp. 22-23; _Tea and Coffee Trade Journal_, "The Objections of Brazil to the Coffee Quota Increase", May, 1944, p. 19; Commodity Credit Corporation, _Report of the President of the Commodity Credit Corporation, 1943_, p. 13; _Report of the President of the Commodity Credit Corporation, 1944_, pp. 11, 14.

It became obvious at the same time that the quota was going to keep coffee out of the United States which was needed for consumption purposes. Consequently, the Board raised the quotas to 277 percent of the basic quota for the year with the understanding that the quota would return to 110 percent of the base on October 1, 1942. Similar actions were taken in the succeeding years.[156] It was through this judicious use of power under Article 8 that the Board averted, as much as possible, coffee shortages in this country.

Early in the operation of the Agreement, it became apparent that the basic quotas were not sufficiently large to satisfy the ever increasing demand in the United States. Under the provisions of Article 3, the basic quota was increased five percent. Similar action was taken in February, 1942.[157] Actually, the increased demand was provided for in the emergency increases so that this action was not a necessity.

Extension of the Agreement. In accordance with Article 24 of the Agreement, the Board recommended on September 2, 1942 that the agreement be extended for one year from October 1, 1943 without change.[158] This proposal was acceptable to all signatories, and the Agreement was made effective for that period.[159]

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156. Inter-American Coffee Board, First Annual Report, 1941-1942, pp. 17, 124-125, 126-127; Second Annual Report, 1942-1943, pp. 10, 66-67; Third Annual Report, 1943-1944, pp. 10, 69-70, 73-75; Fourth Annual Report, 1944-1945, pp. 13-15, 69-70, 71-72, 100-101.

157. Inter-American Coffee Board, First Annual Report, 1941-1942, pp. 14, 109.

158. Ibid., pp. 133, 134.

159. For the declaration providing for the continuation, see International Labour Office, op. cit., p. 68.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

The same procedure was followed the succeeding year making the Agreement effective until September 30, 1945.[160]

The situation in 1945 was considerably different than it was in previous years, and the proposal was made to extend the Agreement with certain important modifications. A protocol was drawn up, signed, and ratified providing:

(1) Extension of the Agreement for one year from October 1, 1945.

(2) Suspension of all the quota provisions (Articles 1-8) except under emergency conditions when they could be reinstated by a vote of ninety-five percent of the total.

(3) Direction of the Board to make a thorough analysis of the world coffee situation and to formulate recommendations regarding the type of international cooperation appearing most likely to contribute to the development and the prosperous condition in international trade of coffee, equitable for both consumers and producers. These recommendations were to take due account of any general principles of commodity policy embodied in any agreement concluded under the auspices of the United Nations.[161]

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160. Inter-American Coffee Board, Third Annual Report, 1943-1944, pp. 19-21.

161. Department of State, "Inter-American Coffee Agreement -- Protocol between the United States and other American Republics Modifying and Extending for One Year from October 1, 1945 the Agreement of November 28, 1940, "Treaties and Other International Acts Series No. 1513, Washington, 1946.

Ratification was advised by the Senate on April 11, 1946, and the protocol was ratified by the President on April 29.[162] The treaty, in its revised form, was subsequently extended until September 30, 1947.[163]

Miscellaneous Operations. The Board initiated the first international compilation of coffee statistics -- of concern and interest to the economist, the trader, the producer, and to the governments of producing and consuming nations. As these statistics became complete and standardized, the publication of a weekly statistical bulletin was undertaken. This was a notable public service of the Board.

Article 18 of the Agreement recognized the need of and provided for close cooperation with those interests vitally concerned with the coffee trade. As early as May 8, 1941, trade representatives were invited to appear before the Board to express their views on certain questions.[164] Eventually, a Trade Advisory Committee was established in order to maintain this relationship on a permanent basis.[165]

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162. Ibid., cover. The results of the world coffee study are not currently available.

163. Bureau of Foreign and Domestic Commerce, "Coffee, Tea, and Spices," Industry Report, December, 1946.

164. Inter-American Coffee Board, First Annual Report, 1941-1942, p. 22.

165. Inter-American Coffee Board, Second Annual Report, 1942-1943, pp. 14-14, 91-93. The Committee was composed as follows:

a. Four ex officio members.
   President of the National Coffee Association.
   President of the Green Coffee Association of New York.
   President of the Green Coffee Association of New Orleans.
   President of the Pacific Coast Coffee Association.

b. Three other members appointed by the Board on the bases of their knowledge of the coffee industry and the nature of their functions in relation to coffee and on their availability for consultation.

Fourth Pan American Coffee Conference. The annual meeting of the Pan American Coffee Conferences, interrupted by the war, were resumed in 1945. The fourth of these conferences met in Mexico City from September 1 to 14. The most important action was to draft a resolution to the government of the United States requesting that price controls be lifted and that competition again be allowed to establish prices. It was further resolved that none of the producing countries should sign treaties with European countries without the including of clauses banning tariffs and internal taxes on coffee and banning favoritism on coffees procured from colonial possessions. An international coffee conference was recommended, and an expansion of the Pan American Coffee Bureau and its activities to Europe was authorized. Further, it was agreed to mutually exchange information on legislation, production methods, and data concerning coffee.[166]

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166. Tea and Coffee Trade Journal, "Twenty-three Important Resolutions Adopted by Pan American Coffee Conference", October, 1945, pp. 12-14, 52-55.

VII

CONCLUSIONS

An attempt to evaluate the success of any particular project involves, per se, an understanding of the ultimate objectives of that project. Herein lies the difficulty. First of all, the objectives are not clear cut. Secondly, costs are not measurable, and the results obtained cannot be spoken of in objective terms.

Cost of the Agreement. In the short-run, there is little doubt but what the program was costly to the American consumer, particularly in the months prior to the entry of the United States into the war. In the latter part of the period, it is probable that the quota kept no coffee out of the market, and hence had no effect on consumer coffee prices, but the United States sacrificed a strong bargaining position in favor of the coffee producing countries.[167]

Long-run costs are even more difficult to determine and involve considerable speculation. Certainly chaotic conditions effecting whole national economies would have obtained without the Agreement. Presumably, marginal and sub-marginal producers would have been eliminated, but the possibility also exists that ruinous conditions would have forced the abandonment of normally super-marginal productive facilities. In this latter

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167. Dietrich, Ethel B., contributor, Economic Defense of the Western Hemisphere, American Council on Public Affairs, Washington, 1941, p. 80

case, a post-war coffee shortage would have been reflected in consumer prices. This may have been desirable as a means to reestablish coffee production on a sound economic basis, and, on the other hand, high post-war prices might have started another cycle of over-expansion of productive facilities.

Results Obtained. The Inter-American Coffee Agreement saved the Latin American coffee industry from collapse, protected the coffee industry of the United States from a disastrous crisis, avoided the closing of excellent markets for American industries, and consolidated the Good Neighbor policy. It proved that hemispheric cooperation could be a tremendous reality, highly and equally beneficial to all.[168]

What would have happened without the Agreement is again speculatory. It must be recalled that in November, 1940, there was at least some question as to the allegiance of some of the Latin American countries. Axis domination, or even the control of those countries by unfriendly governments, would have been a high price to pay for lower coffee prices.

It seems clear that the Agreement was wisely administered. When it became apparent that a coffee shortage was impending in the United States, individual countries were willing to give up an advantageous position in order to permit quota increases. The Board's cooperation with trade interests and with governmental agencies is also to be commended.

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168. Coffee, September, 1945, "Bureau Chairman Opens Conference", p. 3.

One of the more valuable accomplishments of the Agreement was the precedent it set for following organizations. It has been suggested that the Inter-American Coffee Agreement set the precedent for the historic Food Conference of the United Nations,[169] and it seems clear that it also served as precedent for the Department of State proposals for intergovernmental commodity agreements within the framework of an International Trade Organization.

Experience of the Board indicates the feasibility of partial consumer control in international commodity agreements. Though such agreements may or may not be justifiable peace-time measures, it seems probable that they will continue to be an important phase of the international economy. Accepting this supposition, consumer representation is not only just but is proved workable in such agrëements. Consumers are notoriously poorly organized, and it is difficult to secure satisfactory representation for them. Representation by governmental officials leaves much to be desired,[170] as would representation by members of the trade. The consumer would best and most practically be represented by a governmentally appointed private person, noted for his public spirit and knowledge of economics. He should serve a long-term non-renewable appointment.

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169. Chermont, T. S., "A Decade of Coffee Control", The Spice Mill, August, 1943, p. 11.

170. International Labour Office, op. cit., p. xxxix

Possible Future Operation. The coffee situation has changed substantially in the last few years chiefly for two reasons: (1) Because of adverse weather conditions, aging trees, competition of other crops for the land,[171] and soil exhaustion, Brazilian production has fallen off from an annual average production of 22.5 million bags (1931-1941) to 13.2 million bags (1941-1945). The production of the Netherlands East Indies, third largest pre-war producer, has decreased sharply because of war damage. (2) Demand is continuing to increase in the United States, and European demand is expected to gradually return to somewhat near pre-war levels. These two factors have brought the coffee supply and demand to a near tenable economic balance.[172] This change eliminates the necessity for and justification of an international organization to control the marketing of coffee. Over a period of time, the coffee economy will be more apt to attain an optimum position under a system of laissez-faire than under the artificial control of a coffee commission.

There are, however, certain functions which could be performed by such an organization. Research in production and processing methods could well be done on an international scale. The direction of the use of the commodity in relief and/or

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171. Among them cotton, due to the "valorization" of that commodity of the United States.

172. Havemeyer, John S., "The Background and Present Status of the Inter-American Coffee Agreement", Department of State Bulletin, March 2, 1947, p. 380.

promotional projects is one of international significance. Standardization of grades and classifications and the improvement of shipping and storage facilities are possible fields of endeavor.

One of the most important functions which could be performed by an international organization is the collection of statistics and their publication. One of the basic assumptions of capitalistic production is that the individual has widespread knowledge of what is occurring in his field. It has been pointed out that the lack of this knowledge, plus a lack of foresight, was largely responsible for Brazil's "over-production". Accurate and complete statistics, if widely disseminated, could do much to alleviate this condition.[173]

Even though it is felt that emergency measures should be reserved solely for emergencies, there is sufficient justification for a permanent international coffee organization with powers outside the scope of production or market control. Preferably, this should include all coffee producing and consuming countries. Inasmuch as the world economy is becoming more and more centralized through the United Nations Organization and its Specialized Agencies, and because of the advantages gained by membership therein, such an organization should become an integral part of that system -- either through the Food and Agricultural Organization or through the proposed International Trade Organization.

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173. Ibid., xliii-xliv

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